

**ANNUAL  
FINANCIAL REPORT  
OF THE  
CITY OF HARLAN, IOWA  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016**

**CITY OF HARLAN, IOWA  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2016  
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CITY OF HARLAN

List of Principal Officials  
June 30, 2016

Title	Name
Mayor .....	Gene Gettys
Council Member .....	Jay Christensen
Council Member .....	Mike Kolbe
Council Member .....	David Pedersen
Council Member .....	Sharon Kroger
Council Member .....	Greg Bladt
Council Member .....	Dave Miller
City Attorney .....	Todd Argotsinger
City Administrator/City Engineer .....	Vacant
City Clerk .....	Jane Smith



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## INDEPENDENT AUDITORS' REPORT

The Honorable Members of the City Council  
City of Harlan, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the CITY OF HARLAN, IOWA (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Harlan Municipal Utilities, (a discretely presented component unit), which statements reflect total assets of \$54,996,207 and total program revenues of \$14,023,224 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to the amounts included for the Harlan Municipal Utilities, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harlan, Iowa, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, net pension liability information and schedule of funding progress for retiree health plan on pages 4 through 14 and 53 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harlan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2017, on our consideration of the City of Harlan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Harlan's internal control over financial reporting and compliance.

  
Certified Public Accountants

Le Mars, Iowa  
January 10, 2017

## **Management's Discussion and Analysis**

**June 30, 2016**

This discussion and analysis of the City of Harlan financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2016. We encourage the readers to consider the information presented here in conjunction with the City's financial statements that follow this report, as well as the separately issued financial statements of Harlan Municipal Utilities, a discretely presented component units of the City.

### **Financial Highlights**

- The assets of the City of Harlan exceeded liabilities at June 30, 2016 by \$15,924,765. Of this amount, \$2,484,956 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$1,629,153 during the year. Of this amount, the governmental activities increased by \$1,673,513 and the net position of our business-type activities decreased by \$44,360.
- The City's long-term debt increased \$810,000 during the current fiscal year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

In addition to the Management Discussion and Analysis, this annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the Notes to the Financial Statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

## REPORTING THE CITY AS A WHOLE

### The Statement of Net Position and the Statement of Activities

The government-wide statements report information about the City as a whole using accounting methods similar to those used by the private sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by the private-sector companies. These two statements report the City's net position, which is the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. Additional factors, such as changes in the City's property tax base and condition of the City's infrastructure, are also important in making this determination.

In the Statement of Net Position and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, such as Police, Fire, Public Works, and Parks departments, and general administration. Taxes finance most of these activities.
- **Business Type Activities** – The City charges fees to customers to cover the cost of these services. Included here is the City's Sewer fund.

## REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain revenues (such as Sales Tax Revenues). The City has the following types of funds:



**Governmental Funds** – Most of the City's basic services are included in Governmental Funds, which focus on how money moves into and out of these funds and the balances left at year-end are available for spending. These funds are reported using the "modified accrual basis" of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund Statements provide a detailed short-term view of the City's general governmental operations and basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship between Governmental Activities (reported in the Statement of Net Position and the Statement of Activities) and Governmental Funds in a reconciliation following each Governmental Fund financial statement.

**Proprietary Funds** – When the City charges customers for the service it provides, these services are generally reported in Proprietary Funds. Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Fund report and the Business Type Activity we report in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Fund report.

## **THE CITY AS TRUSTEE**

### **Reporting the City's Fiduciary Responsibilities**

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found behind the Fiduciary Funds statements.

## **THE CITY AS A WHOLE**

As stated earlier, net position may serve over time as a useful indicator of a government's financial position. The largest part of the City's net position reflects its investment in capital assets (land, buildings and improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must

be provided from the other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following comparative chart shows the changes in net position for the years ended June 30, 2016 and 2015.

	General Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
Current and Other Assets	\$ 5,680,658	\$ 5,692,520	\$ 2,301,676	\$ 2,520,415
Capital Assets	15,155,793	13,851,245	5,920,563	4,461,575
Total Assets	20,836,451	19,543,765	8,222,239	6,981,990
Deferred Outflows of Resources	328,905	200,388	58,655	-
Long-Term Liabilities	5,919,662	6,259,464	3,529,686	2,089,679
Other Liabilities	429,499	234,075	198,637	222,393
Total Liabilities	6,349,161	6,493,539	3,728,323	2,312,072
Deferred Inflows of Resources	3,398,891	3,600,311	45,110	-
Net Position:				
Net Investment in Capital Assets	10,187,825	8,411,245	2,522,459	2,386,433
Restricted	729,525	1,085,776	-	-
Unrestricted	499,954	153,282	1,985,002	2,283,485
Total Net Position	\$ 11,417,304	\$ 9,650,303	\$ 4,507,461	\$ 4,669,918

	Totals	
	2016	2015
Current and Other Assets	\$ 7,982,334	\$ 8,212,935
Capital Assets	21,076,356	18,312,820
Total Assets	29,058,690	26,525,755
Deferred Outflows of Resources	387,560	200,388
Long-Term Liabilities Outstanding	9,449,348	8,349,143
Other Liabilities	628,136	456,468
Total Liabilities	10,077,484	8,805,611
Deferred Inflows of Resources	3,444,001	3,600,311
Net Position:		
Net Investment in Capital Assets	12,710,284	10,797,678
Restricted	729,525	1,085,776
Unrestricted	2,484,956	2,436,767
Total Net Position	\$ 15,924,765	\$ 14,320,221

This summary reflects an increase of 18.3% for the governmental net position and a decrease of 0.95% in the business-type net position. The governmental net position increase is due primarily to capital outlay exceeding depreciation primarily due to the airport project. The business-type activities was consistent with prior years.

Total revenue reported in Fiscal 2016 was \$9,578,216. The following table breaks down revenues collected for General Governmental Activities and Business-Type Activities for Fiscal Year 2016 and 2015:

Revenue Source	General Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
<b>Program Revenues:</b>				
Charges for Services	\$ 1,649,424	\$ 2,242,601	\$ 1,023,333	\$ 986,111
Operating Grants and Contributions	775,448	762,447	-	-
Capital Grants and Contributions	1,820,938	65,501	-	-
<b>Total Program Revenues</b>	<u>4,245,810</u>	<u>3,070,549</u>	<u>1,023,333</u>	<u>986,111</u>
<b>General Revenues &amp; Transfers</b>				
Property Taxes	3,321,896	3,195,392	-	-
Local Option Sales Tax	468,623	542,028	-	-
Interest	4,590	10,278	-	4,886
Payment in Lieu of Tax	244,993	245,066	-	-
Gain on Disposition of Assets	11,050	4,000	-	-
Miscellaneous	257,921	128,757	-	-
Transfers	(137,619)	(504,548)	137,619	504,548
<b>Total General Revenues &amp; Transfers</b>	<u>4,171,454</u>	<u>3,620,973</u>	<u>137,619</u>	<u>509,434</u>
<b>Total Revenues &amp; Transfers:</b>	<u>\$ 8,417,264</u>	<u>\$ 6,691,522</u>	<u>\$ 1,160,952</u>	<u>\$ 1,495,545</u>

Revenue Source	Totals	
	2016	2015
<b>Program Revenues:</b>		
Charges for Services	\$ 2,672,757	\$ 3,228,712
Operating Grants and Contributions	775,448	762,447
Capital Grants and Contributions	1,820,938	65,501
<b>Total Program Revenues</b>	<u>5,269,143</u>	<u>4,056,660</u>
<b>General Revenues &amp; Transfers:</b>		
Property Taxes	3,321,896	3,195,392
Local Option Sales Tax	468,623	542,028
Interest	4,590	15,164
Payment in Lieu of Tax	244,993	245,066
Gain on Sale of Assets	11,050	4,000
Miscellaneous	257,921	128,757
Transfers	-	-
<b>Total General Revenues &amp; Transfers</b>	<u>4,309,073</u>	<u>4,130,407</u>
<b>Total Revenues &amp; Transfers:</b>	<u>\$ 9,578,216</u>	<u>\$ 8,187,067</u>

Revenue increased due to an increase in intergovernmental revenues due to the airport grant.

Program revenues totaled \$5,269,143 for fiscal year 2016. Governmental Activities provided \$4,245,810 and Business-Type Activities provided \$1,023,333.

General Revenues and Transfers for fiscal year 2016 totaled \$4,309,073. Governmental Activities provided \$4,171,454 and Business-Type Activities provided \$137,619. Property Tax Revenues for fiscal year 2016 totaled \$3,321,896.

Expenses for Fiscal 2016 totaled \$7,949,063. Expenses for Governmental Activities totaled \$6,743,751, accounting for 84.84% of total expenses. Business-Type Activity expenses totaled \$1,205,312, for 15.16% of the total.

The following table shows total expenditures by Function/Program for FY 2016 and FY 2015:

	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
Public Safety	\$ 1,376,359	\$ 1,449,236	\$ -	\$ -
Public Works	1,919,215	2,259,762	-	-
Culture and Recreation	1,121,928	1,474,614	-	-
Community & Economic Development	248,704	348,562	-	-
General Government	1,961,336	2,176,518	-	-
Debt Service	116,209	227,563	-	-
Sewer System	-	-	1,205,312	1,438,854
Total Expenditures	<u>\$ 6,743,751</u>	<u>\$ 7,936,255</u>	<u>\$ 1,205,312</u>	<u>\$ 1,438,854</u>

	Totals	
	2016	2015
Public Safety	\$ 1,376,359	\$ 1,449,236
Public Works	1,919,215	2,259,762
Culture and Recreation	1,121,928	1,474,614
Community & Economic Development	248,704	348,562
General Government	1,961,336	2,176,518
Debt Service	116,209	227,563
Sewer System	1,205,312	1,438,854
Total Expenditures	<u>\$ 7,949,063</u>	<u>\$ 9,375,109</u>

Expenses in the following functions changed as follows:

Public safety remained stable with a slight decrease in expenses due to cost savings.

Public works decreased expenses due to scaling back on street projects in the current year.

Culture and Recreation decreased due to the completion of renovations at Pioneer Park.

Community and Economic Development decreased due to completion of the entrepreneurial Farm Table project.

The Sewer fund decreased expenditures due to completion of the sewer rehabilitation project.

The following table shows the activities included within each program level:

<u>Program Level</u>	<u>Activity</u>
Public Safety	Police, Fire, Ambulance
Public Works	Roadway Construction, Airport Operations, Street Lighting, Transportation Services
Culture and Recreation	Education & Culture, Leisure Time Opportunities
Community and Economic Development	Economic Development, Community Beautification, Planning and Zoning
General Government	Administration, Support Services
Debt Service	Payment of Interest
Sewer System	Operation of the Waste Water Treatment Plant/Supply Distribution System

### **Governmental of Activities**

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses and Changes in Fund Balance. Please note that the expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense) Revenue calculation. This format highlights the respective financial burden that each of the functions place on the taxpayers. For example, for Public Safety, the City spent \$1,376,359 and received \$136,428 in revenue, thus leaving a cost to the taxpayer of \$1,239,931 to be funded by various methods. The new format also identifies how much each function draws from general revenues or is self-financing through fees or grants. Some of the individual line item revenues reported for each function are:

Public Safety	Fines, Fees
Public Works	Road Use Tax, Rent, Special Assessments
Culture and Recreation	Fees, State Aid
General Government	Licenses, Permits
Capital Projects	Donations, State Grants, Federal Grants

The total cost of governmental activities this year was \$6,743,751. Of these costs, \$1,649,424 was paid by those who directly benefited from the programs. Costs paid by other governments and organizations that subsidized certain programs with grants and contributions were \$2,596,386, leaving a Net Expense of \$2,497,941 for Governmental Activities. These expenses of were covered with tax revenues, interest and other general revenues. The Statement of Activities in the financial statements provides further detail. The Net (Expense) Revenue by Governmental Activity is shown in the following table:

Functions/Programs	Net (Expense) Revenue	
	2016	2015
<b>Governmental Activities:</b>		
Public Safety	\$ (1,239,931)	\$ (1,337,038)
Public Works	823,968	(1,317,849)
Culture and Recreation	(896,149)	(1,195,131)
Community and Economic Development	(248,704)	(298,447)
General Government	(820,916)	(489,678)
Debt Service	(116,209)	(227,563)
Total Net (Expense) Revenue Governmental Activities	(2,497,941)	(4,865,706)
General Revenues & Interfund Transfers	4,171,454	3,620,973
<b>Change in Net Position</b>	<b>\$ 1,673,513</b>	<b>\$ (1,244,733)</b>

Total resources available during the year to finance governmental operations were \$18,161,055 consisting of Net Position at July 1, 2015, of \$9,743,791, Program Revenues of \$4,245,810 and General Revenues and Transfers of \$4,171,454. Total Governmental Activities during the year expended \$6,743,751; thus, Net Position was increased by \$1,673,513 to \$11,417,304.

### Business Type Activities

Business Type Activities decreased the City's net position by \$44,360.

The cost of all Proprietary Activities this year was \$1,205,312. As shown in the Statement of Activities, the amounts paid by users of the systems were \$1,023,333, resulting in total Net Revenue for Business Type Activities of \$(181,979). The Net (Expense) Revenue by Business Type Activity is shown in the following table:

Business-Type Activities	Net (Expense) Revenue	
	2016	2015
Sewer	\$ (181,979)	\$ (452,743)
General Revenues & Interfund Transfers	137,619	509,434
<b>Change in Net Position</b>	<b>\$ (44,360)</b>	<b>\$ 56,691</b>

Total resources available during the year to finance Proprietary Fund activities were \$5,712,773 consisting of Net Position at July 1, 2015, of \$4,551,821, Program Revenues of \$1,023,333 and General Revenues and Transfers of \$137,619. Total Proprietary Fund Activities during the year expended \$1,205,312; thus Net Position was decreased by \$44,360 to \$4,507,461.

## Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. The City's Governmental Funds reported combined ending fund balances of \$1,755,072. The combined Governmental Funds balance decreased \$40,939 from the prior year primarily due to repayment of refunded debt.

The General Fund is the primary operating fund of the City. During the year, revenues exceeded expenditures in the General fund by \$241,388.

The Employee Benefit Fund is used to account for the collection and disbursement of property tax dollars exclusively for payment of employee benefits. During the year, revenues exceeded expenditures by \$84,916.

The Urban Renewal Fund is used for the collection and disbursement of TIF financed projects.

The Local Option Sales Tax Fund is used to account for the collection and disbursement of local option sales tax dollars.

The Debt Service Fund is used to account for collection of general property taxes for the repayment of general obligation debt.

The Airport Improvements Fund is used to account for expenditures related to airport improvements.

## General Fund Budgetary Highlights

Comparing the fiscal year 2016 original (adopted) city wide amount of \$21,638,961 to the final budget amount of \$24,102,391 shows a net increase of \$2,463,430, due primarily to the airport project.

The following table shows the government wide budget variances by program:

Disbursements	Amended Budget	Actual	Variance
Public Safety	\$ 1,365,207	\$ 1,365,630	\$ (423)
Public Works	1,363,761	1,191,427	172,334
Culture and Recreation	933,707	1,004,964	(71,257)
Community and Economic Development	251,900	179,439	72,461
General Government	1,008,208	771,375	236,833
Debt Service	802,149	611,630	190,519
Capital Projects	2,159,766	1,999,129	160,637
Business-Type Activities	16,217,693	16,285,474	(67,781)
<b>Total Disbursements</b>	<b>\$ 24,102,391</b>	<b>\$ 23,409,068</b>	<b>\$ 693,323</b>

The City's investment in capital assets, including land, buildings and improvements, equipment, streets, and other infrastructure represents the value of the resources utilized to provide services to our citizens. The investment in capital assets as of June 30, 2016, was \$21,076,356 (net of accumulated depreciation). The gross additions to capital assets for fiscal 2016 are as follows:

	General Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Building and Equipment	231,422	798,858	61,634	-	293,056	798,858
Infrastructure	-	-	-	-	-	-
Construction in Progress	2,016,183	339,832	1,560,036	104,875	3,576,219	444,707
<b>Total Gross Additions</b>	<b>\$ 2,247,605</b>	<b>\$ 1,138,690</b>	<b>\$ 1,621,670</b>	<b>\$ 104,875</b>	<b>\$ 3,869,275</b>	<b>\$ 1,243,565</b>

Construction in Progress at June 30, 2016 for governmental activities consisted of costs associated with airport improvements and construction in progress for the business-type activities consisted of sewer system improvements.

See Note 6 to the financial statements for more information on the City's capital assets.

## DEBT ADMINISTRATION

At year-end the City had \$8,290,000 of general obligation debt outstanding. Of this amount, \$4,945,000 comprises debt paid by property taxes or TIF revenue. The remainder of \$3,345,000 is debt being paid by sewer revenue.

Debt administration is on track, with all of the City debt repaid within the next 15 years. This rapid repayment, when combined with the use of TIF has allowed the City to maintain our good rating. This reflects well on our community.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt Outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is \$13,067,903. With outstanding General Obligation Debt applicable to this limit of \$8,290,000, we are utilizing 63% of this limit. More detailed information on debt administration is provided in Note 7 of the financial statements.



## **ECONOMIC FACTORS**

The City of Harlan works hard to maintain a positive approach to growth and development. Projects being reviewed for future completion to enhance the community include:

- Marketing housing lots in the G.H. Christiansen Subdivision.
- Purchasing a new fire truck. (\$500,000)
- Adding Christmas lights throughout the community, which will take the next two years.
- Expanding library services and programs to involve more citizens.
- Installing decorative street lighting to enhance City streets.
- Continuing sewer updates as required.
- Starting the process of a dog park on City property.
- Installing new entrance signage at the four main City entrances.
- Looking at new restrooms and seating at J.J. Jensen Park in 2017/2018.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gene Getty at 712-755-5137.

**CITY OF HARLAN, IOWA**  
**STATEMENT OF NET POSITION**  
June 30, 2016

	Primary Government			Component Unit
	Governmental	Business-Type		Harlan Municipal
	Activities	Activities	Total	Utilities
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,739,069	\$ 2,161,120	\$ 3,900,189	\$ 7,547,005
Receivables (Net, where applicable, of allowance for uncollectibles)				
Accounts	103,216	83,441	186,657	2,052,017
Taxes	30,187	-	30,187	-
Subsequent Year Taxes	3,147,226	-	3,147,226	-
Estimated Unbilled Usage	-	-	-	347,493
Due from Other Governmental Agencies	460,049	-	460,049	-
Inventories	39,547	34,000	73,547	749,995
Prepaid Assets	161,364	23,115	184,479	126,086
Restricted Assets:				
Cash and Cash Equivalents	-	-	-	10,177,111
Land	16,000	22,500	38,500	-
Construction in Progress	2,283,466	1,664,911	3,948,377	5,587
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	12,856,327	4,233,152	17,089,479	33,990,913
<b>Total Assets</b>	<b>20,836,451</b>	<b>8,222,239</b>	<b>29,058,690</b>	<b>54,996,207</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension Related Deferred Outflows	328,905	58,655	387,560	395,342
<b>LIABILITIES</b>				
Accounts Payable	356,918	182,052	538,970	2,289,539
Accrued Wages	37,605	10,139	47,744	143,002
Customer Deposits	-	-	-	41,766
Claims Incurred But Not Reported	24,425	-	24,425	-
Accrued Interest Payable	10,551	6,446	16,997	180,879
Noncurrent Liabilities:				
Due within one year:				
Revenue Bonds Payable	-	-	-	850,000
General Obligation Bonds	480,000	255,000	735,000	-
Notes Payable	-	-	-	164,967
Compensated Absences and Benefits	94,339	13,000	107,339	-
Due in more than one year:				
Revenue Bonds Payable	-	-	-	13,461,586
Notes Payable	-	-	-	824,833
General Obligation Bonds	4,487,968	3,143,104	7,631,072	-
Other Post Employment Benefits	185,390	-	185,390	-
Net Pension Liability	671,965	118,582	790,547	1,235,612
<b>Total Liabilities</b>	<b>6,349,161</b>	<b>3,728,323</b>	<b>10,077,484</b>	<b>19,192,184</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Subsequent Year Taxes	3,147,226	-	3,147,226	-
Pension Related Deferred Inflows	251,665	45,110	296,775	287,707
<b>Total Deferred Inflows of Resources</b>	<b>3,398,891</b>	<b>45,110</b>	<b>3,444,001</b>	<b>287,707</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	10,187,825	2,522,459	12,710,284	18,695,114
Restricted for:				
Debt Service	202,215	-	202,215	4,470,406
Employee Benefits	91,516	-	91,516	-
Local Option Sales Tax Purposes	70,204	-	70,204	-
Economic Development Activities	8,999	-	8,999	-
Housing Grant	1,007	-	1,007	-
Streets	355,584	-	355,584	-
Unrestricted	499,954	1,985,002	2,484,956	12,746,138
<b>Total Net Position</b>	<b>\$ 11,417,304</b>	<b>\$ 4,507,461</b>	<b>\$ 15,924,765</b>	<b>\$ 35,911,658</b>

See Accompanying Notes to Financial Statements

**CITY OF HARLAN, IOWA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities:				
Public Safety	\$ 1,376,359	\$ 31,718	\$ 104,710	\$ -
Public Works	1,919,215	289,013	633,232	1,820,938
Culture and Recreation	1,121,928	188,273	37,506	-
Community and Economic Development	248,704	-	-	-
General Government	1,961,336	1,140,420	-	-
Debt Service	116,209	-	-	-
Total governmental activities	<u>6,743,751</u>	<u>1,649,424</u>	<u>775,448</u>	<u>1,820,938</u>
<b>Business-Type Activities:</b>				
Sewer System	<u>1,205,312</u>	<u>1,023,333</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities:	<u>1,205,312</u>	<u>1,023,333</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>7,949,063</u>	<u>2,672,757</u>	<u>775,448</u>	<u>1,820,938</u>
<b>Component Unit:</b>				
Harlan Municipal Utilities	<u>\$ 12,683,250</u>	<u>\$ 14,023,224</u>	<u>\$ -</u>	<u>\$ -</u>

General Revenues:  
Property Taxes  
Other Taxes  
Local Option Sales Tax  
Hotel/Motel Taxes  
Unrestricted Interest  
Payments in Lieu of Tax  
Gain on Disposition of Assets  
Miscellaneous  
Interfund Transfers  
Total general revenues and transfers  
Change in net position

Net Position - beginning

Prior Period Adjustment

Net Position - beginning, as restated

Net Position - ending

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-Type Activities	Total	Component Unit Harlan Municipal Utilities
\$ (1,239,931)		\$ (1,239,931)	
823,968		823,968	
(896,149)		(896,149)	
(248,704)		(248,704)	
(820,916)		(820,916)	
(116,209)		(116,209)	
<u>(2,497,941)</u>		<u>(2,497,941)</u>	
	\$ (181,979)	(181,979)	
	<u>(181,979)</u>	<u>(181,979)</u>	
<u>(2,497,941)</u>	<u>(181,979)</u>	<u>(2,679,920)</u>	
			\$ 1,339,974
2,662,172	-	2,662,172	-
659,724	-	659,724	-
418,731	-	418,731	-
49,892	-	49,892	-
4,590	-	4,590	62,404
244,993	-	244,993	-
11,050	-	11,050	-
257,921	-	257,921	-
(137,619)	137,619	-	-
<u>4,171,454</u>	<u>137,619</u>	<u>4,309,073</u>	<u>62,404</u>
1,673,513	(44,360)	1,629,153	1,402,378
9,625,694	4,669,918	14,295,612	34,509,280
<u>118,097</u>	<u>(118,097)</u>	<u>-</u>	<u>-</u>
<u>9,743,791</u>	<u>4,551,821</u>	<u>14,295,612</u>	<u>34,509,280</u>
<u>\$ 11,417,304</u>	<u>\$ 4,507,461</u>	<u>\$ 15,924,765</u>	<u>\$ 35,911,658</u>

See Accompanying Notes to Financial Statements

**CITY OF HARLAN, IOWA**  
**BALANCE SHEET**  
**Governmental Funds**  
**June 30, 2016**

	<b>General</b>	<b>Debt Service</b>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 584,920	\$ 207,679
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	103,216	-
Taxes	17,968	5,087
Subsequent Year Taxes	1,560,893	483,494
Due from Other Funds	-	-
Due from Other Governmental Agencies	-	-
Inventories	1,933	-
Total Assets	<u>2,268,930</u>	<u>696,260</u>
<b>Liabilities</b>		
Liabilities		
Accounts Payable	29,725	-
Accrued Wages	34,448	-
Due to Other Funds	2,180	-
Total Liabilities	<u>66,353</u>	<u>-</u>
<b>Deferred Inflows of Resources</b>		
Unavailable revenue - subsequent year taxes	1,560,893	483,494
Total Deferred Inflows of Resources	<u>1,560,893</u>	<u>483,494</u>
Fund Balances		
Non-Spendable:		
Inventories	1,933	-
Restricted:		
Debt Service	-	212,766
Employee Benefits	-	-
Local Option Sales Tax Purposes	-	-
Streets	-	-
Housing Grant	-	-
Committed:		
Fire Activities	62,490	-
Assigned:		
Capital Projects	-	-
Unassigned	577,261	-
Total Fund Balances	<u>641,684</u>	<u>212,766</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,268,930</u>	<u>\$ 696,260</u>

See Accompanying Notes to Financial Statements

Special Revenue			Capital Project	Other	Total
Employee Benefits	Local Option Sales Tax	Urban Renewal	Airport Improvements	Governmental Funds	Governmental Funds
\$ 84,384	\$ 9,085	\$ 9,159	\$ 42,340	\$ 564,585	\$ 1,502,152
-	-	-	-	-	103,216
7,132	-	-	-	-	30,187
535,351	-	567,488	-	-	3,147,226
-	-	-	-	130,243	130,243
-	61,119	-	351,411	47,519	460,049
-	-	-	-	37,614	39,547
626,867	70,204	576,647	393,751	779,961	5,412,620
-	-	160	323,037	3,535	356,457
-	-	-	-	3,157	37,605
-	-	-	31,727	82,353	116,260
-	-	160	354,764	89,045	510,322
535,351	-	567,488	-	-	3,147,226
535,351	-	567,488	-	-	3,147,226
-	-	-	-	37,614	39,547
-	-	-	-	-	212,766
91,516	-	-	-	-	91,516
-	70,204	-	-	-	70,204
-	-	-	-	317,970	317,970
-	-	-	-	1,007	1,007
-	-	-	-	-	62,490
-	-	-	38,987	418,951	457,938
-	-	8,999	-	(84,626)	501,634
91,516	70,204	8,999	38,987	690,916	1,755,072
\$ 626,867	\$ 70,204	\$ 576,647	\$ 393,751	\$ 779,961	\$ 5,412,620

See Accompanying Notes to Financial Statements

**CITY OF HARLAN, IOWA**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**June 30, 2016**

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Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance - Governmental Funds (page 19)		\$ 1,755,072
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds.		14,149,400
Internal service funds are used by management to fund and maintain the City's equipment replacement fund and medical costs provided to user departments and are included in the statement of net assets.		1,204,441
Net deferred inflows and outflows of resources related to net pension liability		77,240
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources.		161,364
Accrued interest expense from the balance sheet that require current financial resources from governmental activities.		(10,551)
Other Post Employment Benefits not due and payable in the current period and therefore are not reported in the funds.		(185,390)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	\$ (4,967,968)	
Net Pension Liability	(671,965)	
Compensated Absences	(94,339)	
		(5,734,272)
Total Net Position - Governmental Activities (page 15)		<u>\$ 11,417,304</u>

**CITY OF HARLAN, IOWA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Governmental Funds**  
**For the Year Ended June 30, 2016**

	General	Debt Service
Revenue:		
Taxes	\$ 1,549,939	\$ 497,319
Special Assessments	110	-
Licenses and Permits	93,942	-
Intergovernmental Revenue	397,576	-
Charges for Services	410,583	-
Fines and Forfeits	19,072	-
Contributions	28,275	-
Revenue from Use of Property	75,347	-
Interest on Investments	4,590	-
Miscellaneous	275,918	-
Total Revenue	<u>2,855,352</u>	<u>497,319</u>
Expenditures:		
Public Safety	1,340,642	-
Public Works	631,802	-
Culture and Recreation	895,514	-
Community and Economic Development	176,144	-
General Government	722,416	-
Capital Projects	-	-
Debt Service	-	611,630
Total Expenditures	<u>3,766,518</u>	<u>611,630</u>
Excess (Deficiency) of revenues over expenditures	<u>(911,166)</u>	<u>(114,311)</u>
Other financing sources (uses):		
Proceeds from Sale of Capital Assets	11,050	-
Transfers In	1,141,504	220,800
Transfers Out	-	(610,463)
Total other financing sources (uses)	<u>1,152,554</u>	<u>(389,663)</u>
Net Change in Fund Balance	241,388	(503,974)
Fund balances (deficit) - beginning of year	<u>400,296</u>	<u>716,740</u>
Fund balances - end of year	<u>\$ 641,684</u>	<u>\$ 212,766</u>

See Accompanying Notes to Financial Statements



Special Revenue			Capital Project	Other	Total
Employee Benefits	Local Option Sales Tax	Urban Renewal	Airport Improvements	Governmental Funds	Governmental Funds
\$ 614,916	\$ -	\$ 659,724	\$ -	\$ -	\$ 3,321,898
-	-	-	-	-	110
-	-	-	-	-	93,942
-	418,731	-	1,820,939	626,014	3,263,260
-	-	-	-	-	410,583
-	-	-	-	-	19,072
-	-	-	-	72	28,347
-	-	-	-	-	75,347
-	-	-	-	-	4,590
-	-	-	-	1,444	277,362
614,916	418,731	659,724	1,820,939	627,530	7,494,511
-	-	-	-	-	1,340,642
-	-	-	-	487,176	1,118,978
-	-	-	-	22,657	918,171
-	-	2,207	-	3,475	181,826
-	2,541	-	-	-	724,957
-	-	-	2,016,353	436,324	2,452,677
-	-	-	-	-	611,630
-	2,541	2,207	2,016,353	949,632	7,348,881
614,916	416,190	657,517	(195,414)	(322,102)	145,630
-	-	-	-	-	11,050
-	-	-	234,401	494,657	2,091,362
(530,000)	(500,000)	(648,518)	-	-	(2,288,981)
(530,000)	(500,000)	(648,518)	234,401	494,657	(186,569)
84,916	(83,810)	8,999	38,987	172,555	(40,939)
6,600	154,014	-	-	518,361	1,796,011
\$ 91,516	\$ 70,204	\$ 8,999	\$ 38,987	\$ 690,916	\$ 1,755,072

See Accompanying Notes to Financial Statements

**CITY OF HARLAN, IOWA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2016**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 22)		\$	(40,939)
<p>Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense exceeded capital outlays in the current year as follows:</p>			
	Expenditures for capital assets	\$	2,060,913
	Depreciation expense		<u>(697,641)</u>
			1,363,272
Governmental funds do not reflect the change in net pension liability and deferred outflows/inflows related to the pension liability			64,075
The effect of the change in prepaid insurance which is not reported in the governmental funds as it is not available to provide current financial resources.			(312)
Long-term accrual of other post employment benefits liability in the governmental funds as it does not consume current financial resources.			(37,078)
Accrued interest expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.			(1,220)
Amortization of bond premiums do not provide current financial resources and therefore are not reported in the governmental funds			1,641
Governmental funds do not reflect the change in accrued compensated absences as it does not consume current financial resources. The Statement of Activities reflects the change in accrued compensated absences through expenditures.			(8,566)
Internal service funds are used by management to fund and maintain the City's insurance policies provided to user departments and are included in the statement of net position. The net revenue of the internal service funds is reported with governmental activities.			(162,360)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The amount by which proceeds exceeded payments in the current year is as follows:</p>			
	Proceeds from debt issuance	-	
	Repayments of long-term debt	495,000	<u>495,000</u>
Change in net assets of governmental activities (page 17)			<u>\$ 1,673,513</u>

**CITY OF HARLAN, IOWA**  
**STATEMENT OF NET POSITION**  
**Proprietary Funds**  
**June 30, 2016**

	<b>Business-Type Activities</b>	<b>Governmental Activities</b>
	<b>Sewer</b>	<b>Internal Service</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 2,161,120	\$ 236,917
Receivables (Net, where applicable, of allowance for uncollectibles)		
Accounts	83,441	-
Inventories	34,000	-
Prepaid Assets	23,115	-
Total Current Assets	<u>2,301,676</u>	<u>236,917</u>
<b>Noncurrent Assets</b>		
Land	22,500	-
Construction in Progress	1,664,911	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	4,233,152	1,006,393
Total Noncurrent Assets	<u>5,920,563</u>	<u>1,006,393</u>
<b>Total Assets</b>	<u>8,222,239</u>	<u>1,243,310</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Related Deferred Outflows	58,655	-
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	182,052	461
Accrued Wages	10,139	-
Due to Other Funds	-	13,983
Accrued Interest Payable	6,446	-
Claims Incurred But Not Reported	-	24,425
Total Current Liabilities	<u>198,637</u>	<u>38,869</u>
<b>Noncurrent Liabilities:</b>		
Due within one year:		
General Obligation Bonds	255,000	-
Compensated Absences and Benefits	13,000	-
Due in more than one year:		
General Obligation Bonds	3,143,104	-
Net Pension Liability	118,582	-
Total Noncurrent Liabilities	<u>3,529,686</u>	<u>-</u>
<b>Total Liabilities</b>	<u>3,728,323</u>	<u>38,869</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension Related Deferred Inflows	45,110	-
<b>NET POSITION</b>		
Net Investment in Capital Assets	2,522,459	1,006,393
Unrestricted	1,985,002	198,048
<b>Total Net Position</b>	<u>\$ 4,507,461</u>	<u>\$ 1,204,441</u>

See Accompanying Notes to Financial Statements

**CITY OF HARLAN, IOWA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Proprietary Funds**  
**For the Year Ended June 30, 2016**

	<b>Business-Type Activities</b>	<b>Governmental Activities</b>
	<b>Sewer</b>	<b>Internal Service</b>
<b>Operating Revenues:</b>		
Charges for Services	\$ 1,016,865	\$ 135,850
Miscellaneous	6,468	31,020
Reimbursement	-	882,452
<b>Total Operating Revenue</b>	<b>1,023,333</b>	<b>1,049,322</b>
<b>Operating Expenses:</b>		
Public Safety	-	50,283
Public Works	-	7,602
Culture and Recreation	-	71,376
General Government	-	897,005
Employee Services	402,915	-
Contract Services	72,533	-
Repairs and Maintenance	376,292	-
Utilities	82,086	-
Miscellaneous	11,761	-
Depreciation	162,683	245,146
<b>Total Operating Expenses</b>	<b>1,108,270</b>	<b>1,271,412</b>
<b>Operating (Loss)</b>	<b>(84,937)</b>	<b>(222,090)</b>
<b>Non-Operating Income (Expense):</b>		
Gain/(Loss) on Disposition of Property	-	(270)
Interest Expense	(97,042)	-
<b>Total Non-Operating Income (Expense)</b>	<b>(97,042)</b>	<b>(270)</b>
<b>Income (Loss) before Contributions and Transfers</b>	<b>(181,979)</b>	<b>(222,360)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers In	137,619	60,000
<b>Total Other Financing Sources (Uses)</b>	<b>137,619</b>	<b>60,000</b>
<b>Change in Net Position</b>	<b>(44,360)</b>	<b>(162,360)</b>
<b>Net Position - Beginning</b>	<b>4,669,918</b>	<b>1,366,801</b>
Prior Period Adjustment	(118,097)	-
<b>Net Position - Beginning, as Restated</b>	<b>4,551,821</b>	<b>1,366,801</b>
<b>Net Position - Ending</b>	<b>\$ 4,507,461</b>	<b>\$ 1,204,441</b>

See Accompanying Notes to Financial Statements

**CITY OF HARLAN, IOWA**  
**STATEMENT OF CASH FLOWS**  
**Proprietary Funds**  
**For the Year Ended June 30, 2016**

	<b>Business-Type Activities</b>	<b>Governmental Activities</b>
	<b>Sewer</b>	<b>Internal Service</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Customers	\$ 1,087,742	\$ 1,004,322
Cash Paid to Suppliers for Goods and Services	(569,093)	(1,013,038)
Cash Paid to Employees for Services	(422,999)	-
Net Cash Provided (Used) by Operating Activities	<u>95,650</u>	<u>(8,716)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and Construction of Capital Assets	(1,621,670)	(186,692)
Bond Premium	22,961	-
Proceeds from Debt Issuance	1,555,000	-
Principal Paid on Notes and Bonds	(250,000)	-
Interest Paid on Notes and Bonds	(98,693)	-
Net Cash (Used) for Capital and Related Financing Activities	<u>(392,402)</u>	<u>(186,692)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Transfers to Other Funds	137,619	60,000
Due From (To) Other Funds	(68,930)	13,983
Net Cash Provided by Non-Capital Financing Activities	<u>68,689</u>	<u>73,983</u>
Net (Decrease) in Cash and Cash Equivalents	(228,063)	(121,425)
Cash and Cash Equivalents at Beginning of Year	<u>2,389,683</u>	<u>358,342</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,161,620</u>	<u>\$ 236,917</u>

(Continued)

**CITY OF HARLAN, IOWA**  
**COMBINING STATEMENT OF CASH FLOWS (Continued)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2016**

	<b>Business-Type Activities</b>	<b>Governmental Activities</b>
	<b>Sewer</b>	<b>Internal Service</b>
Reconciliation of Operating (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating (Loss)	\$ (84,937)	\$ (222,090)
Adjustments to Reconcile Net Operating (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	162,683	245,146
(Increase) Decrease in Assets:		
Accounts Receivable	64,409	-
Prepaid Expenses	(5,303)	-
Deferred Outflows - Pension Related Expenses	(30,160)	-
Increase (Decrease) in Liabilities		
Accounts Payable	(21,118)	(23,624)
Accrued Wages	(5,486)	-
Net Pension Liability	30,775	-
Accrued Compensated Absences	(1,537)	-
Deferred Inflows - Pension Related Expenses	(13,676)	-
Claims Incurred But Not Reported	-	(8,148)
Total Adjustments	180,587	213,374
Net Cash Provided (Used) by Operating Activities	\$ 95,650	\$ (8,716)

**CITY OF HARLAN, IOWA**  
**COMBINED STATEMENT OF FIDUCIARY NET POSITION**  
**Fiduciary Funds**  
**June 30, 2016**

	<u>Agency Fund</u>		
	Flex	Private Purpose	
	Spending	Trust Funds	Totals
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 2,536	\$ 37,009	\$ 39,545
<b>Total Current Assets</b>	<u>2,536</u>	<u>37,009</u>	<u>39,545</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Due to Other Governments			-
Other Payables	2,536	200	2,736
<b>Total Current Liabilities</b>	<u>2,536</u>	<u>200</u>	<u>2,736</u>
<b>NET POSITION</b>			
Restricted - Held In Trust	-	36,809	36,809
<b>Total Net Position</b>	<u>\$ -</u>	<u>\$ 36,809</u>	<u>\$ 36,809</u>

**CITY OF HARLAN, IOWA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2016**

	<b>Private Purpose Trust Funds Totals</b>
<b>Additions</b>	
Contributions	\$ 4,406
Miscellaneous	329
Total Additions	<u>4,735</u>
<b>Deductions</b>	
Public Safety	<u>1,000</u>
Total Deductions	<u>6,498</u>
Change in Net Position	(1,763)
Net Position Beginning of Year	<u>38,572</u>
Net Position End of Year	<u><u>\$ 36,809</u></u>



**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Harlan, Iowa is a political subdivision of the State of Iowa located in Shelby County, and was incorporated in 1879, under the laws of the State of Iowa, later amended in 1974 under the Home Rule City Act. The City operates under a Mayor-Council form of government with the mayor and council members elected on a non-partisan basis. The City administers the following functions as authorized by its charter: public safety, public works, culture and recreation, community and economic development and general government services. The City also has a municipal sewer utility system, which is governed by the City Council.

The City's financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, the City of Harlan, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Harlan, Iowa (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit - The government-wide financial statements include the Harlan Municipal Utilities as a component unit. The Harlan Municipal Utilities is a legally separate organization. The board of the Harlan Municipal Utilities is appointed by the Harlan City Council. Iowa Statutes provide for circumstances whereby the City can impose their will on the Harlan Municipal Utilities. The Harlan Municipal Utilities can create a potential financial benefit or burden on the City. As a component unit, the Harlan Municipal Utilities financial statements have been presented as a discrete column in the financial statements. The information presented is for the fiscal year ended June 30, 2016. Complete financial statements are on file at Harlan Municipal Utilities.

Jointly Governed Organizations - The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following Boards and Commissions: Shelby County Emergency Management Commission, Shelby County Ambulance Commission, and the Shelby County Solid Waste Agency Board.

CITY OF HARLAN, IOWA  
Notes to Financial Statements  
June 30, 2016

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation**

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax, intergovernmental revenues, and other nonexchange revenues are reported separately from business type activities, which rely to a significant extent on fees and charges for services. The City's general, special revenue, debt service, and capital projects are classified as governmental activities. The City's equipment revolving internal service fund and group insurance internal service fund are also classified as a governmental-type activities.

The Statement of Net Position presents the City's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories.

*Net Investment in Capital Assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The City first uses restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

The City does not allocate indirect costs. Certain expenses of the City are accounted for through the internal service fund on a cost-reimbursement basis.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year activities.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City reports the following major governmental funds:

- 1) General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The sources of revenue include property taxes, charges for services, fines and fees, licenses and permits, as well as state and federal grants. The expenditures of the General Fund relate to general administration, police and fire protection, maintenance of public streets, economic development, and culture and recreation.
- 2) Debt Service Fund - Accounts for the accumulation of resources for and the payment of general obligation debt principal, interest and related costs.
- 3) Special Revenue Funds:
  - Employee Benefits Fund – Accounts for taxes levied for employee benefits.
  - Urban Renewal Fund – Accounts for property taxes received to be expended for public improvements, construction of public infrastructure, as well as, economic development opportunities.
  - Local Option Sales Tax – Accounts for local option sales tax received to be spent in accordance with the ballot initiative.
- 4) Capital Project Fund – Airport Improvements – Accounts for improvements at the municipal airport.

The City reports the following major proprietary (enterprise) funds:

The Sewer Utility is used to account for the operation and maintenance of the City's sewer system.

In addition, the City reports the following fund types:

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the city, or to other governmental units, on a cost-reimbursement basis.

The City's internal service funds are presented in the proprietary fund financial statements.

Equipment Revolving Fund – Accounts for equipment purchases for various departments of the City.

Group Insurance Fund – Accounts for funding and maintenance of the City's self-funded health insurance provided to City Employees.

Since the principal users of both funds are the City's governmental activities, the financial statements of both internal service funds are consolidated in the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services are reported in the appropriate functional activity.

CITY OF HARLAN, IOWA  
Notes to Financial Statements  
June 30, 2016

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fiduciary Fund Types – Fiduciary funds are used to report assets held in an agency or custodial capacity for others and therefore not available to support City programs. Since agency funds are custodial in nature, they do not involve the measurement of results of operations and are not incorporated into the government-wide financial statements. The City has the following private purpose trust funds:

C. Hansen / Schildberg Trust	Police Trust
Library Trust	Loree / Poynter Trust
Beebe Trust	

The City also has the following agency fund:

Flex Fund – to account for assets held by the City as an agent for individuals.

**C. Measurement Focus and Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

CITY OF HARLAN, IOWA  
Notes to Financial Statements  
June 30, 2016

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-recovery basis. The City's internal service funds are presented in the proprietary fund financial statements.

Fiduciary funds are used to report assets held in an agency or custodial capacity for others and, therefore, these funds are not available to support City programs.

**D. Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Custodial Credit Risk – The City has no policy in place regarding custodial credit risk and deposits with financial institutions, however, deposits are insured by the state sinking fund, which provides for additional assessments against depositories to avoid loss of public funds.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City Council to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in March 2015. Any county collections on the 2015-2016 tax levy remitted to the City within 60 days subsequent to June 30, 2016, are recorded as property tax revenue.

Customer Accounts and Unbilled Usage – Accounts receivable in the Enterprise Funds includes services billed prior to June 30, 2016 and an estimate of services provided through June 30, 2016 but not billed.

Short-Term Interfund Receivables/Payables - During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent certain transactions between funds have not been paid or received as of June 30, 2016, balances of interfund amounts payable or receivable have been recorded as "due to other funds" and "due from other funds", respectively in the fund financial statements. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as interfund balances.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories of the proprietary fund types are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2016 are recorded as prepaid items.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 for general capital assets and \$25,000 for infrastructure assets and estimated useful lives in excess of one year. Depreciation expense is calculated using the straight-line method over the following useful lives:

Buildings	39 – 150 Years
Machinery & Equipment	5 – 40 Years
Infrastructure	20 – 100 Years

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon lapse of available period. Compensatory time for non-exempt and exempt employers will be earned and accrued from January 1 to July 1 and July 1 to January 1 for use in the consecutive six months following the accrual period. Time for non-exempt employees is accrued at time and a half to be paid out to employees after the six month period of use has expired. Exempt employees are required to use their compensatory time or forfeit it at the end of the six months. A liability is recorded when incurred in the government-wide and proprietary fund financial statement. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2016. The compensated absences liability attributable to the governmental activities will be paid by the General Fund and Road Use Tax Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Position and the proprietary fund Statement of Net Position.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Fund Equity – Fund balances for each of the City's governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance* – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed Fund Balance* – amounts that can be spent only for specific purposes determined by formal action of the government's highest level of decision making authority.
- *Assigned fund balance* – amounts the City intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned fund balance* – amounts that are available for any purpose; these amounts can be reported only in the City's General Fund.

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the City can report in special revenue funds.

Fund balance amounts represent the nature of the net resources that are reported in a governmental fund. The City fund balance classifications include non-spendable resources, restricted, and non-restricted (unassigned) amounts. When the City incurs an expenditure and both restricted and unrestricted amounts are available, the City considers restricted amounts to have been spent. When the City incurs an expenditure for an unrestricted amount, committed amounts are reduced first, followed by assigned amounts and then unassigned amounts for purposes in which any of those unrestricted fund balance classifications could be used.

Interfund Transactions - Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.



**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

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**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

All other interfund transactions, except interfund services provided and used transactions and reimbursements, are reported as transfers.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the Public Safety, Culture and Recreation, and Business-Type Activities functions.

**F. Deferred Outflow/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City currently has pension related deferred outflows.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflow of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from four sources: property taxes, special assessments, other taxes and pension related items. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Note 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The City's deposits at June 30, 2016, were entirely covered by Federal Depository Insurance collateralized with securities or letters of credit held by the City or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligation of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

**Note 3 - RECEIVABLES**

Receivables at June 30, 2016 are net of allowance for uncollectibles. The allowance for uncollectibles for the component unit was \$35,000 and the City considers all receivables to be collectible at June 30, 2016, therefore no allowance has been recorded by the primary government.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 4 - DUE FROM OTHER GOVERNMENTS**

At June 30, 2016, amounts due from other governments were as follows:

Due from the United States Department of Transportation for Airport Grant	\$ 351,411
Due from the Iowa Department of Revenue for Road Use Tax allocation	47,519
Due from the Iowa Department of Revenue for Local Option Sales taxes	61,119
Total Governmental Funds	<u>\$ 460,049</u>

**Note 5 - INTERFUND RECEIVABLES AND PAYABLES**

As of June 30, 2016 short-term interfund borrowings were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
Nonmajor Governmental	General	\$ 2,180
Nonmajor Governmental	Capital Project Airport Improvement	31,727
Nonmajor Governmental	Nonmajor Governmental	82,353
Nonmajor Governmental	Internal Service Fund – Equipment Revolving	13,983
		<u>\$ 130,243</u>

The purpose of the interfund balances is to help short-term cash flow shortages of various funds.

**Note 6 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

<b>Governmental Activities</b>	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2016</b>
Capital assets not being depreciated:				
Land	\$ 16,000	\$ -	\$ -	\$ 16,000
Construction in progress	267,283	2,016,183	-	2,283,466
Total capital assets not being depreciated	283,283	2,016,183	-	2,299,466
Capital assets being depreciated:				
Buildings & equipment	12,617,547	231,422	44,330	12,804,639
Infrastructure	20,161,636	-	-	20,161,636
Total capital assets being depreciated	32,779,183	231,422	44,330	32,966,275
Less accumulated depreciation for:				
Buildings & equipment	5,649,540	554,554	44,060	6,160,034
Infrastructure	13,561,681	388,233	-	13,949,914
Total accumulated depreciation	19,211,221	942,787	44,060	20,109,948
Total capital assets being depreciated, net	13,567,962	(711,365)	270	12,856,327
Governmental activities capital assets, net	<u>\$ 13,851,245</u>	<u>\$ 1,304,818</u>	<u>\$ 270</u>	<u>\$ 15,139,793</u>

Construction in progress is related to the airport improvement project.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 6 - CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Public Safety	\$ 22,255
Public Works, which includes the depreciation of infrastructure	476,305
Culture and Recreation	193,448
General Government	5,633
Governmental Activities Depreciation Expense by Function	697,641
Internal Service – Equipment Revolving Fund	245,146
Total governmental activities - depreciation expense	\$ 942,787

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 22,500	\$ -	\$ -	\$ 22,500
Construction in progress	104,875	1,560,036		1,664,911
Total capital assets not being depreciated	127,375	1,560,036	-	1,687,411
Capital assets being depreciated:				
Buildings and equipment	6,124,792	61,634	-	6,186,426
Infrastructure	1,778,759	-	-	1,778,759
Total capital assets being depreciated	7,903,551	61,634	-	7,965,185
Less: Accumulated depreciation for:				
Buildings & equipment	2,513,763	127,581	-	2,641,344
Infrastructure	1,055,587	35,102	-	1,090,689
Total accumulated depreciation	3,569,350	162,683	-	3,732,033
Total capital assets being depreciated, net	4,334,201	(101,049)	-	4,233,152
Governmental activities capital assets, net	\$ 4,461,576	\$ 1,458,987	\$ -	\$ 5,920,563

Construction in Progress is related to sewer plant improvements.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 6 - CAPITAL ASSETS (Continued)**

A summary of changes in capital assets for the discretely presented component unit is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<b>Harlan Municipal Utilities</b>				
<b>Discretely Presented Component Unit:</b>				
Capital assets not being depreciated:				
Construction in Progress	\$ -	\$ 5,587	\$ -	\$ 5,587
Total capital assets not being depreciated	-	5,587	-	5,587
Capital assets being depreciated:				
Property, plant & equipment	69,087,959	975,417	-	70,063,376
Total capital assets being depreciated	69,087,959	975,417	-	70,063,376
Less: Accumulated depreciation for:				
Property, plant & equipment	34,359,398	1,713,065	-	36,072,463
Total accumulated depreciation	34,359,398	1,713,065	-	36,072,463
Total capital assets being depreciated, net	34,728,561	(737,648)	-	33,990,913
Governmental activities capital assets, net	\$ 34,728,561	\$ (732,061)	\$ -	\$ 33,996,500

Construction in progress is related to utility system expansion.

**Reconciliation of Net Investment in Capital Assets:**

	Governmental Activities	Business-Type Activities	Component Unit
Land	\$ 16,000	\$ 22,500	\$ -
Construction in Progress	2,283,466	1,664,911	5,587
Capital Assets (net of accumulated depreciation)	12,856,327	4,233,152	33,990,913
Less: General Obligation Bonds Payable	4,967,968	3,398,104	-
Revenue Bonds & Capital Loan Notes	-	-	15,301,386
Net Investment in Capital Assets	\$ 10,187,825	\$ 2,522,459	\$ 18,695,114

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 7 - LONG-TERM DEBT**

**General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and projects. General obligation bonds have been issued for both governmental and business-type activities. These bonds are direct obligations and pledge the full faith and credit of the City.

**New Bond Issue**

On October 14, 2015, the City issued \$1,555,000 of General Obligation Capital Loan Notes for various sewer system projects. The interest rates range from 1.70% to 3.50% with annual payments beginning June 1, 2016 through June 1, 2030. The bonds will be retired with sewer revenues.

General obligation bonds outstanding as of June 30, 2016 are as follows:

	<b>Date of Issue</b>	<b>Final Maturity</b>	<b>Interest Rates</b>	<b>Original Indebtedness</b>	<b>Balance 6/30/16</b>	<b>Due Within One Year</b>
<b>Primary Government:</b>						
<b>Governmental Activities</b>						
General Obligation Debt						
Corporate purpose bonds	10/09/14	06/01/29	1.85 – 3.35%	\$ 1,835,000	\$ 1,615,000	\$ 195,000
Corporate purpose bonds	06/01/11	06/01/26	1.20 – 3.80%	990,000	730,000	65,000
Corporate purpose bonds	05/01/13	06/01/22	.6 – 2.35%	2,815,000	2,600,000	220,000
Total Governmental Activities – General Obligation Debt					<u>\$ 4,945,000</u>	<u>\$ 480,000</u>
<b>Business-Type Activities</b>						
General Obligation Debt						
Corporate purpose bonds	06/28/12	06/01/27	2.00 – 2.50%	2,455,000	\$ 1,390,000	\$ 150,000
Corporate purpose bonds	10/14/15	06/01/30	1.70 – 3.50%	1,555,000	1,455,000	100,000
					<u>\$ 3,345,000</u>	<u>\$ 255,000</u>

The balances shown on the Statement of Net Position are gross of unamortized bond premiums of \$22,968 for governmental activities and \$53,104 for business type activities.

Debt service requirements to maturity for general obligation bonds are as follows:

**Primary Government**

<b>Years</b>	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	
2017	\$ 480,000	\$ 105,079	\$ 255,000	\$ 77,353	\$ 917,432
2018	540,000	97,904	255,000	72,253	965,157
2019	560,000	89,037	260,000	67,153	976,190
2020	375,000	79,227	260,000	61,953	776,180
2021	380,000	72,780	265,000	57,053	774,833
2022-2026	1,990,000	238,730	1,410,000	199,054	3,837,784
2027-2030	620,000	29,299	640,000	42,800	1,332,099
Total	<u>\$ 4,945,000</u>	<u>\$ 712,056</u>	<u>\$ 3,345,000</u>	<u>\$ 577,619</u>	<u>\$ 9,579,675</u>

The City's computed legal debt limit as of June 30, 2016 is \$13,067,903 of which \$8,290,000 is committed for outstanding general obligation debt.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 7 - LONG-TERM DEBT (Continued)**

**Revenue Bond Covenants**

Component Unit:

Bond covenants require funds to be set aside in retirement, reserve, and plant improvements accounts. During the year ended June 30, 2016, the Utility was in compliance with the revenue note provisions.

Details of revenue bonds notes and contracts payable at June 30, 2016 are as follows:

Component Unit:	Date of Issue	Final Maturity	Interest Rates	Original Indebtedness	Balance 6/30/16	Due Within One Year
<b>Electric Fund</b>						
Electric Revenue Bond, Series 2010A	6/1/10	10/1/24	3.0-4.25%	\$ 8,285,000	\$ 7,770,000	\$ 615,000
<b>Water Fund:</b>						
Water State Revolving Fund	5/16/12	7/1/32	3.0%	7,035,000	6,651,000	235,000
<b>Telecommunications Fund:</b>						
Communications Utility Revenue Capital Loan Notes, Series 2012	3/29/12	4/1/22	3.25%	\$ 1,649,667	\$ 989,800	\$ 164,967

Debt service requirements to maturity for revenue bonds are as follows:

Component Unit:

Year Ending June 30,	Electric Revenue Bonds & Contracts		Water Revenue Bonds		Telecommunications Revenue Capital Loan Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 615,000	\$ 292,325	\$ 235,000	\$ 199,530	\$ 164,967	\$ 32,169
2018	635,000	268,040	312,000	192,480	164,967	26,807
2019	810,000	242,315	322,000	183,120	164,967	21,446
2020	840,000	213,830	333,000	173,460	164,967	16,084
2021	885,000	181,895	344,000	163,470	164,966	10,723
2022-2026	3,985,000	344,202	1,892,000	655,830	164,966	5,361
2027-2031	-	-	2,221,000	352,950	-	-
2032-2033	-	-	992,000	44,880	-	-
Total	\$ 7,770,000	\$ 1,542,607	\$ 6,651,000	\$ 1,965,720	\$ 989,800	\$ 112,590

The balance shown on the statement of net position for the component unit is net of unamortized bond discounts of \$109,414.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 7 - LONG-TERM DEBT (Continued)**

**Changes in Long-Term Liabilities**

Long-Term liability activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 5,440,000	\$ -	\$ 495,000	\$ 4,945,000	\$ 480,000
Other Post Employee Benefits	148,312	37,078	-	185,390	-
Net Position Liability	497,573	174,392	-	671,965	-
Compensated Absences	85,773	94,339	85,773	94,339	94,339
Long-Term Liabilities	<u>\$ 6,171,658</u>	<u>\$ 305,809</u>	<u>\$ 580,773</u>	<u>\$ 5,896,694</u>	<u>\$ 574,339</u>
<b>Business-Type Activities:</b>					
General Obligation Bonds	\$ 2,040,000	\$ 1,555,000	\$ 250,000	\$ 3,345,000	\$ 255,000
Net Pension Liability	87,806	30,776	-	118,582	-
Compensated Absences	14,537	13,000	14,537	13,000	13,000
Other Post Employment Benefits	<u>\$ 2,142,343</u>	<u>\$ 1,598,776</u>	<u>\$ 264,537</u>	<u>\$ 3,476,582</u>	<u>\$ 268,000</u>
<b>Component Unit:</b>					
Electric Revenue Bonds	\$ 8,355,000	\$ -	\$ 585,000	\$ 7,770,000	\$ 615,000
Water Revenue Bonds	7,016,000	-	365,000	6,651,000	235,000
Capital Loan Notes	1,154,767	-	164,967	989,800	164,967
Net Position Liability	1,006,792	228,820	-	1,235,612	-
Long-Term Liabilities	<u>\$17,532,559</u>	<u>\$ 228,820</u>	<u>\$ 1,114,967</u>	<u>\$ 16,646,412</u>	<u>\$ 1,014,967</u>

**Note 8 - TRANSFERS**

The following is a summary of transfers between funds:

	General	Debt Service	Airport Project	Non Major Governmental	Internal Service Fund	Sewer	Total Transfers Out
Local Option Sales Tax	\$ 440,000	\$ -	\$ -	\$ -	\$ 60,000	\$ -	\$ 500,000
Employee Benefit	530,000	-	-	-	-	-	530,000
Urban Renewal	126,174	220,800	-	163,925	-	137,619	648,518
Debt Service	45,330	-	234,401	330,732	-	-	610,463
Total Transfers In	<u>\$1,141,504</u>	<u>\$220,800</u>	<u>\$ 234,401</u>	<u>\$ 494,657</u>	<u>\$ 60,000</u>	<u>\$ 137,619</u>	<u>\$2,288,981</u>

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

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**Note 9- PENSION AND RETIREMENT**

*Plan description* – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

**Pension Benefits**

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55.

The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary).

Protection occupation members may retire at normal retirement age which is generally at age 55. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

**Disability and Death Benefits**

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.



**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 9- PENSION AND RETIREMENT (Continued)**

**Contributions**

Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30 year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protective occupation members contributed 6.56 percent of pay and the City contributed 9.84 percent for a total rate of 16.40 percent.

The City's total contributions to IPERS for the year ended June 30, 2016 were \$166,986 and for the component unit total contributions were \$164,410.

**Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the City reported a liability of \$790,547 for its proportionate share of the net pension liability, and the component unit reported a \$1,235,612 net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's collective proportion was 0.0160014 percent and 0.250099 percent for the component unit, which was a decrease of .0012411 percent from its proportion measured as of June 30, 2014. The component unit showed a decrease of .0003763 percent from 2014.

For the year ended June 30, 2016, the City and component unit recognized pension expense of \$76,736 and \$104,054, respectively. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>City's Share</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 12,919	\$ 12,396
Changes of assumptions	23,542	190
Net difference between projected and actual earnings on pension plan investments	183,716	284,189
Changes in proportion and differences between City contributions and proportionate share of contributions	397	-
City contribution subsequent to the measurement date	166,986	-
Total	\$ 387,560	\$ 296,775

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 9- PENSION AND RETIREMENT (Continued)**

	<b>Component Unit</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 7,726	\$ -
Changes of assumptions	(10,412)	-
Net difference between projected and actual earnings on pension plan investments	234,286	287,707
Changes in proportion and differences between City contributions and proportionate share of contributions	(668)	-
Utility contributions subsequent to the measurement date	164,410	-
<b>Total</b>	<b>\$ 395,342</b>	<b>\$ 287,707</b>

\$154,925 and \$153,007 reported as deferred outflows of resources related to pensions resulting from the City and component unit contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30,</b>	<b>Total</b>	
	<b>City</b>	<b>Component Unit</b>
2017	\$ (41,192)	\$ (34,343)
2018	(41,192)	(34,343)
2019	(41,192)	(34,343)
2020	47,726	45,626
2021	(351)	628
	<u>\$ (76,201)</u>	<u>\$ (56,775)</u>

There were no non-employer contributing entities at IPERS.

*Actuarial assumptions* – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary Increase (effective June 30, 2010)	4.00 to 17.00 percent average, including inflation. Rates vary by membership group.
Long-term Investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00 percent per annum based on 3.00 percent inflation and 1.00 percent real wage inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 9- PENSION AND RETIREMENT (Continued)**

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity / Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. Tips	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	100%	

*Discount rate* – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made at 9.40% of covered payroll and the City contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate.* The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.50 percent) or 1 percentage point higher (8.5 percent) than the current rate.

	<b>1% Decrease 6.5%</b>	<b>Discount Rate 7.5%</b>	<b>1% Increase 8.5%</b>
Proportionate share of the net Pension liability			
City	\$ 1,683,754	\$ 790,547	\$ 36,995
Component Unit	2,163,334	1,235,612	452,548

*Pension plan fiduciary net position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

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**Note 10-     SPLIT FUNDING HEALTH INSURANCE PLAN**

The City of Harlan, along with its component unit, Harlan Municipal Utilities, has established a partially self-funded health insurance program. The plan is funded by City contributions and is administered through a service agreement with Employee Benefit Systems. The agreement is subject to automatic renewal provisions. The City assumes liability for deductible amounts of \$2,000 to \$4,000 depending on the coverage selected by the employee.

Monthly payments of service fees, plan contributions, and claims for the City's split funding health insurance are recorded as expenditures in the City's Internal Service – Group Insurance Fund.

Claims payable and estimated claims incurred but not reported are recorded as a liability in the City's Internal Service – Group Insurance Fund.

	<b>Current Year</b>	<b>Prior Year</b>
Unpaid claims, beginning of fiscal year	\$ 32,573	\$ 40,981
Current year claims and changes in estimates	256,969	368,793
Claim payments	(265,117)	(377,201)
Unpaid claims, end of fiscal year	<u>\$ 24,425</u>	<u>\$ 32,573</u>

**Note 11 -     DEFICIT FUND EQUITY**

The City has seven funds with deficit equity balances at June 30, 2016. The City intends to finance these deficits from various resources including grant revenue and fund transfers.

The individual fund deficits were as follows:

Nonmajor – Upper Story Facade.....	\$ 16,047
Nonmajor – GH Christiansen .....	54,850
Nonmajor – Dye Street.....	5,403
Nonmajor – CDBG Downtown Rehab .....	2,125
Nonmajor – Downtown Project.....	3,304
Nonmajor – Rocky's Skate Park.....	21
Nonmajor – Jaycee Park.....	2,876

**Note 12-     RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks, with the exception of vision and dental care, are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

**Note 13-     COMMITMENTS**

In fiscal year 2016, the City entered into two contracts related to a sewer project and the airport improvements there is approximately \$334,000 remaining on the two contracts at June 30, 2016.

CITY OF HARLAN, IOWA  
Notes to Financial Statements  
June 30, 2016

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**Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Plan Description – The City operates a single-employer retiree benefit plan which provides medical, prescription drug, and dental benefits for retirees and their spouses. There are 33 active and 2 retired members in the plan. Covered individuals include any eligible individual employed by the City. Individuals retiring from service with the City are eligible under the Iowa Public Employees Retirement System (IPERS). Retiring individual must have a minimum of four years of experience with the City as well as be at least 55 years of age. Coverage ceases upon reaching age 65 or the individual becomes eligible for Medicare.

The medical, prescription drug, and dental coverage is provided through a self-insured plan with Employee Benefit Systems. Retirees under age 65 pay the full amount of the premium for the medical/dental/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. Monthly medical premiums for active members are \$562 for single coverage and \$1,252 for family coverage. Monthly dental premiums for active members are \$26 for single coverage and \$55 for family coverage. The same monthly premiums apply to retirees.

Annual OPEB Cost and Net OPEB Obligation – The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 47,490
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
	<hr/>
Annual OPEB cost	47,490
Contributions made	(10,412)
	<hr/>
Increase in net OPEB obligation	37,078
Net OPEB obligation beginning of year	148,312
	<hr/>
Net OPEB obligation end of year	\$ 185,390

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

CITY OF HARLAN, IOWA  
Notes to Financial Statements  
June 30, 2016

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**Note 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) – (Continued)**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 47,490	21.9%	\$ 37,078
June 30, 2013	\$ 47,490	21.9%	\$ 74,156
June 30, 2014	\$ 47,490	21.9%	\$ 111,234
June 30, 2015	\$ 47,490	21.9%	\$ 148,312
June 30, 2016	\$ 47,490	21.9%	\$ 185,390

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$317,393, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$317,393. The covered payroll (annual payroll of active employees covered by the plan) was \$1,670,000 and the ratio of the UAAL to covered payroll was 22.0%. As of June 30, 2016, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the alternative measurement method was used. The ultimate medical trend rate is 8.0%. The medical trend rate is reduced 0.5% each year until reaching the 5.0% ultimate rate.

Mortality rates are from the 2004 United States Life Tables. Annual termination probabilities were developed from specific aged-based data from GASB Statement 45. Annual retirement probabilities were developed based on the historical average age for the covered group.

Projected claim costs of the medical plan are \$11,676 per year for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**CITY OF HARLAN, IOWA**  
**Notes to Financial Statements**  
**June 30, 2016**

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**Note 15 -     Restatement**

The City implemented GASB 68 - Accounting and Financial Reporting for Pensions in 2015. In 2016, the City began allocating a portion of the pension related costs to the sewer fund. This change resulted in an increase in unrestricted net pension at June 30, 2015 of \$118,097 of the governmental activities and a corresponding decrease in net position of the sewer fund.

**REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF HARLAN, IOWA**  
**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN**  
**BALANCES - BUDGET AND ACTUAL (CASH BASIS) -**  
**Governmental Funds and Proprietary Funds (Including Component Unit)**  
**For the Year Ended June 30, 2016**

	<b>Governmental Funds Actual</b>	<b>Proprietary Funds Actual</b>
Receipts:		
Taxes	\$ 2,659,090	\$ -
Special Assessments	110	-
Tax Increment Financing	671,628	-
Other City Taxes	464,168	-
Licenses and Permits	18,035	-
Intergovernmental Revenue	2,443,073	-
Charges for Services	542,402	15,146,476
Revenue from Use of Property	45,464	-
Interest on Investments	4,590	62,401
Miscellaneous	283,201	-
Total Revenue	<u>7,131,761</u>	<u>15,208,877</u>
Disbursements:		
Public Safety	1,365,630	-
Public Works	1,191,427	-
Culture and Recreation	1,004,964	-
Community and Economic Development	179,439	-
General Government	771,375	-
Capital Projects	1,999,129	-
Debt Service	611,630	-
Business-Type Activities	-	16,285,474
Total Expenditures	<u>7,123,594</u>	<u>16,285,474</u>
Excess (deficiency) of receipts over disbursements	<u>8,167</u>	<u>(1,076,597)</u>
Other financing sources (uses):		
Proceeds from Debt Issuance	-	2,311,424
Proceeds of Capital Asset Sales	11,050	-
Transfers In	2,091,362	137,619
Transfers Out	(2,288,981)	-
Total other financing sources (uses)	<u>(186,569)</u>	<u>2,449,043</u>
Net Change in Balances	(178,402)	1,372,446
Balances - beginning of year	<u>1,694,537</u>	<u>19,177,823</u>
Balances - end of year	<u>\$ 1,516,135</u>	<u>\$ 20,550,269</u>

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
\$ 2,659,090	\$ 2,523,894	\$ 2,523,894	\$ 135,196
110	500	500	(390)
671,628	651,518	651,518	20,110
464,168	652,499	652,499	(188,331)
18,035	13,700	13,700	4,335
2,443,073	959,545	2,429,545	13,528
15,688,878	16,558,844	16,558,844	(869,966)
45,464	37,525	37,525	7,939
66,991	-	-	66,991
283,201	167,950	167,950	115,251
<u>22,340,638</u>	<u>21,665,975</u>	<u>23,035,975</u>	<u>(695,337)</u>
1,365,630	1,333,207	1,365,207	(423)
1,191,427	1,098,761	1,363,761	172,334
1,004,964	871,677	933,707	(71,257)
179,439	139,500	251,900	72,461
771,375	816,208	1,008,208	236,833
1,999,129	359,766	2,159,766	160,637
611,630	802,149	802,149	190,519
16,285,474	16,217,693	16,217,693	(67,781)
<u>23,409,068</u>	<u>21,638,961</u>	<u>24,102,391</u>	<u>693,323</u>
<u>(1,068,430)</u>	<u>(72,986)</u>	<u>(1,066,416)</u>	<u>(2,014)</u>
2,311,424	-	1,570,000	741,424
11,050	-	-	11,050
2,228,981	1,978,518	1,978,518	250,463
<u>(2,288,981)</u>	<u>(1,978,518)</u>	<u>(1,978,518)</u>	<u>(310,463)</u>
<u>2,262,474</u>	<u>-</u>	<u>1,570,000</u>	<u>692,474</u>
1,194,044	(72,986)	503,584	690,460
<u>20,872,360</u>	<u>20,872,360</u>	<u>20,872,360</u>	<u>-</u>
<u>\$ 22,066,404</u>	<u>\$ 20,799,374</u>	<u>\$ 21,375,944</u>	<u>\$ 690,460</u>

See Accompanying Independent Auditors' Report

**CITY OF HARLAN, IOWA**  
**BUDGET TO GAAP RECONCILIATION**  
**REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING**  
**For the Year Ended June 30, 2016**

	<b>Cash Basis</b>	<b>Accrual Adjustments</b>	<b>Modified/Full Accrual Basis</b>
Revenue:			
Taxes	\$ 3,330,718	\$ (472,988)	\$ 2,857,730
Special Assessments	110	-	110
Other City Taxes	464,168	-	464,168
Licenses and Permits	18,035	75,907	93,942
Intergovernmental Revenue	2,443,073	820,187	3,263,260
Charges for Services	15,688,878	(231,738)	15,457,140
Fines and Forfeits	-	19,072	19,072
Contributions	-	28,347	28,347
Revenue from Use of Property	45,464	29,883	75,347
Interest on Investments	66,991	3	66,994
Miscellaneous	283,201	(5,839)	277,362
Total Revenue	<u>22,340,638</u>	<u>262,834</u>	<u>22,603,472</u>
Expenditures/Expenses:			
Public Safety	1,365,630	(24,988)	1,340,642
Public Works	1,191,427	(72,449)	1,118,978
Culture and Recreation	1,004,964	(86,793)	918,171
Community and Economic Development	179,439	2,387	181,826
General Government	771,375	(46,418)	724,957
Capital Projects	1,999,129	453,548	2,452,677
Debt Service	1,999,129	(1,387,499)	611,630
Business-Type Activities	611,630	13,276,932	13,888,562
Total Expenditures/Expenses	<u>9,122,723</u>	<u>12,114,720</u>	<u>21,237,443</u>
Excess (Deficiency) of Revenues Over Expenditures/Expenses	<u>13,217,915</u>	<u>(11,851,886)</u>	<u>1,366,029</u>
Other financing sources (uses):			
Proceeds from Debt Issuance	2,311,424	(2,311,424)	-
Proceeds of Capital Asset Sales	11,050	-	11,050
Transfers In	2,228,981	-	2,228,981
Transfers Out	(2,288,981)	-	(2,288,981)
Total other financing sources (uses)	<u>2,262,474</u>	<u>(2,311,424)</u>	<u>(48,950)</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures/Expenses and Other (Uses)	<u>15,480,389</u>	<u>(14,163,310)</u>	<u>1,317,079</u>
Fund Balance/Retained Earnings - beginning of year	20,872,360	20,102,849	40,975,209
Prior Period Adjustment	-	(118,097)	(118,097)
Fund Balance/Retained Earnings - beginning of year, as Restated	<u>20,872,360</u>	<u>19,984,752</u>	<u>40,857,112</u>
Fund Balance/Retained Earnings - end of year	<u>\$ 36,352,749</u>	<u>\$ 5,821,442</u>	<u>\$ 42,174,191</u>

See Accompanying Independent Auditors' Report

**CITY OF HARLAN, IOWA**  
**Notes to Required Supplementary Information – Budgetary Reporting**  
**June 30, 2016**

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The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Funds, and appropriates the amount deemed necessary for each of the different City offices and departments. The budgets may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. During the year ended June 30, 2016, one budget amendment was adopted increasing budgeted disbursements by \$2,463,430.

Formal and legal budgetary control is based upon 9 major classes of expenditures known as functions, not by fund. These 9 functions are: public safety, public works, community and economic development, health and social services, culture and recreation, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department.

During the fiscal year ended June 30, 2016, disbursements exceeded the amounts budgeted in the Public Safety, Culture and Recreation, and Business-Type Activities functions.

**CITY OF HARLAN, IOWA  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM LAST FISCAL YEAR\*  
(IN THOUSANDS)  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>City</b>	
	<b>2016</b>	<b>2015</b>
Entity's proportion of the net pension liability	0.0160014%	.0147603%
Entity's proportionate share of the net pension liability	\$ 790	\$ 585
Entity's covered-employee payroll	\$ 1,750	\$ 1,670
Entity's proportionate share of the net pension liability as a percentage of its covered employee payroll	45.14%	35.02%
Plan fiduciary net pension as a percentage of the total pension liability	85.19%	87.61%

\*The amounts presented for each fiscal year were determined as of June 30.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Entity will present information for those years for which information is available.

	<b>Component Units</b>	
	<b>2016</b>	<b>2015</b>
Entity's proportion of the net pension liability	0.250099%	.0253862%
Entity's proportionate share of the net pension liability	\$ 1,235	\$ 1,007
Entity's covered-employee payroll	\$ 1,841	\$ 1,713
Entity's proportionate share of the net pension liability as a percentage of its covered employee payroll	67.08%	58.79%
Plan fiduciary net pension as a percentage of the total pension liability	85.19%	87.61%

\*The amounts presented for each fiscal year were determined as of June 30.

**CITY OF HARLAN, IOWA  
SCHEDULE OF THE ENTITY CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST TEN YEARS (IN THOUSANDS)  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2016**

<b>City</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Statutorily required contribution	\$ 167	\$ 155	\$ 159	\$ 148	\$ 138
Contributions in relation to the statutorily required contribution	(167)	(155)	(159)	(148)	(138)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Entity's covered employee payroll	\$ 1,750	\$ 1,670	\$ 1,713	\$ 1,610	\$ 1,555
Contributions as a percentage of covered-employee payroll	9.54%	9.28%	9.28%	9.19%	8.87%

<b>City</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Statutorily required contribution	\$ 127	\$ 110	\$ 104	\$ 97	\$ 93
Contributions in relation to the statutorily required contribution	(127)	(110)	(104)	(97)	(93)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Entity's covered employee payroll	\$ 1,540	\$ 1,500	\$ 1,445	\$ 1,409	\$ 1,384
Contributions as a percentage of covered-employee payroll	8.24%	7.33%	7.20%	6.88%	6.72%

<b>Component Unit</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Statutorily required contribution	\$ 164	\$ 153	\$ 148	\$ 140	\$ 125
Contributions in relation to the statutorily required contribution	(164)	(153)	(148)	(140)	(125)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered employee payroll	\$ 1,841	\$ 1,713	\$ 1,661	\$ 1,680	\$ 1,546
Contributions as a percentage of covered-employee payroll	8.91%	8.93%	8.91%	8.33%	8.09%

<b>Component Unit</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Statutorily required contribution	\$ 106	\$ 96	\$ 88	\$ 86	\$ 82
Contributions in relation to the statutorily required contribution	(106)	(96)	(88)	(86)	(82)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered employee payroll	\$ 1,525	\$ 1,453	\$ 1,443	\$ 1,414	\$ 1,421
Contributions as a percentage of covered-employee payroll	6.95%	6.61%	6.10%	6.08%	5.77%

See Accompanying Independent Auditors' Report

**CITY OF HARLAN, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016**

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**Changes of Benefit Terms:**

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

**Changes of Assumptions**

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

**CITY OF HARLAN, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –  
PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2016**

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The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.



CITY OF HARLAN, IOWA  
Schedule of Funding Progress for the  
Retiree Health Plan

Required Supplementary Information						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Approximate Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,555,000	20.4%
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,610,000	19.7%
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,713,000	18.5%
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,670,000	19.0%
July 1, 2012	-	\$ 317,393	\$ 317,393	0.00%	\$1,886,000	16.8%

See Note 14 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF HARLAN, IOWA**  
**COMBINING BALANCE SHEET**  
**Governmental Nonmajor Funds**  
**June 30, 2016**

	Special Revenue		Capital Projects
	Road Use Tax	Upper Story Façade	Dye Street
<b>Assets</b>			
Cash and Cash Equivalents	\$ 274,870	\$ -	\$ -
Receivables (Net, where applicable, of allowance for uncollectibles)			
Due from Other Funds	-	-	-
Due from Other Governmental Agencies	47,519	-	-
Inventories	37,614	-	-
<b>Total Assets</b>	<b>360,003</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>			
<b>Liabilities</b>			
Accounts Payable	1,262	-	-
Accrued Wages	3,157	-	-
Due to Other Funds	-	16,047	5,403
<b>Total Liabilities</b>	<b>4,419</b>	<b>16,047</b>	<b>5,403</b>
<b>Fund Balances</b>			
Non-Spendable:			
Inventories	37,614	-	-
Restricted:			
Streets	317,970	-	-
Housing Grant	-	-	-
Assigned:			
Capital Projects	-	-	-
Unassigned	-	(16,047)	(5,403)
<b>Total Fund Balances</b>	<b>355,584</b>	<b>(16,047)</b>	<b>(5,403)</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 360,003</b>	<b>\$ -</b>	<b>\$ -</b>

Capital Projects					
CDBG Downtown Rehab	Activity Center	Street Overlay	GH Christiansen Subdivision	Industrial Park	
\$ -	\$ 8,253	\$ -	\$ -	\$ 280,455	
-	-	-	-	130,243	
-	-	-	-	-	
-	-	-	-	-	
-	8,253	-	-	410,698	
-	-	-	-	-	
-	-	-	-	-	
2,125	-	-	54,850	-	
2,125	-	-	54,850	-	
-	-	-	-	-	
-	-	-	-	-	
-	-	-	-	-	
-	8,253	-	-	410,698	
(2,125)	-	-	(54,850)	-	
(2,125)	8,253	-	(54,850)	410,698	
\$ -	\$ 8,253	\$ -	\$ -	\$ 410,698	

**CITY OF HARLAN, IOWA**  
**COMBINING BALANCE SHEET (CONTINUED)**  
**Governmental Nonmajor Funds**  
**June 30, 2016**

	Capital Projects					Total
	Pioneer	Downtown	Rocky's	Jaycee	Housing	Governmental
	Park	Project	Skate	Park	Rehab 1998	Nonmajor
			Park			Funds
<b>Assets</b>						
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -	\$ 1,007	\$ 564,585
Receivables (Net, where applicable, of allowance for uncollectibles)						
Due from Other Funds	-	-	-	-	-	130,243
Due from Other Governmental Agencies	-	-	-	-	-	47,519
Inventories	-	-	-	-	-	37,614
<b>Total Assets</b>	-	-	-	-	1,007	779,961
<b>Liabilities:</b>						
Accounts Payable	-	-	-	2,273	-	3,535
Accrued Wages	-	-	-	-	-	3,157
Due to Other Funds	-	3,304	21	603	-	82,353
<b>Total Liabilities</b>	-	3,304	21	2,876	-	89,045
<b>Fund Balances</b>						
Non-Spendable:						
Inventories	-	-	-	-	-	37,614
Restricted:						
Streets	-	-	-	-	-	317,970
Housing Grant	-	-	-	-	1,007	1,007
Assigned:						
Capital Projects	-	-	-	-	-	418,951
Unassigned	-	(3,304)	(21)	(2,876)	-	(84,626)
<b>Total Fund Balances</b>	-	(3,304)	(21)	(2,876)	1,007	690,916
<b>Total Liabilities and Fund Balance</b>	\$ -	\$ -	\$ -	\$ -	\$ 1,007	\$ 779,961

**CITY OF HARLAN, IOWA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Governmental Nonmajor Funds**  
**For the Year Ended June 30, 2016**

	Special Revenue		Capital Projects
	Road Use Tax	Upper Story Façade	Dye Street
Revenue:			
Intergovernmental Revenue	\$ 626,014	\$ -	\$ -
Contributions	-	-	-
Miscellaneous	-	-	-
Total Revenue	626,014	-	-
Expenditures:			
Public Works	487,176	-	-
Culture and Recreation	-	-	-
Community and Economic Development	-	1,350	-
Capital Projects	-	-	5,403
Total Expenditures	487,176	1,350	5,403
Excess (deficiency) of revenues over expenditures	138,838	(1,350)	(5,403)
Other financing sources (uses):			
Transfers In	-	-	-
Total other financing sources (uses)	-	-	-
Net Change in Fund Balance	138,838	(1,350)	(5,403)
Fund balances (deficits) -beginning of year	216,746	(14,697)	-
Fund balances (deficits) - end of year	\$ 355,584	\$ (16,047)	\$ (5,403)

Capital Projects				
CDBG Downtown Rehab	Activity Center	Street Overlay	GH Christiansen Subdivision	Industrial Park
\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-
-	-	-	-	1,444
-	-	-	-	1,444
-	-	-	-	-
-	19,709	-	-	-
2,125	-	-	-	-
-	-	321,582	-	96,864
2,125	19,709	321,582	-	96,864
(2,125)	(19,709)	(321,582)	-	(95,420)
-	-	321,582	-	163,925
-	-	321,582	-	163,925
(2,125)	(19,709)	-	-	68,505
-	27,962	-	(54,850)	342,193
\$ (2,125)	\$ 8,253	\$ -	\$ (54,850)	\$ 410,698

**CITY OF HARLAN, IOWA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES (Continued)**  
**Governmental Nonmajor Funds**  
**For the Year Ended June 30, 2016**

	Capital Projects					Total
	Pioneer	Downtown	Rocky's	Jaycee	Housing	Governmental
	Park	Project	Skate	Park	Rehab 1998	Nonmajor
			Park			Funds
Revenue:						
Intergovernmental Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 626,014
Contributions	-	-	-	72	-	72
Miscellaneous	-	-	-	-	-	1,444
Total Revenue	-	-	-	72	-	627,530
Expenditures:						
Public Works	-	-	-	-	-	487,176
Culture and Recreation	-	-	-	2,948	-	22,657
Community and Economic Development	-	-	-	-	-	3,475
Capital Projects	9,150	3,304	21	-	-	436,324
Total Expenditures	9,150	3,304	21	2,948	-	949,632
Excess (deficiency) of revenues over expenditures	(9,150)	(3,304)	(21)	(2,876)	-	(322,102)
Other financing sources (uses):						
Transfers In	9,150	-	-	-	-	494,657
Total other financing sources (uses)	9,150	-	-	-	-	494,657
Net Change in Fund Balance	-	(3,304)	(21)	(2,876)	-	172,555
Fund balances (deficits) -beginning of year	-	-	-	-	1,007	518,361
Fund balances (deficits) - end of year	\$ -	\$ (3,304)	\$ (21)	\$ (2,876)	\$ 1,007	\$ 690,916



**CITY OF HARLAN, IOWA**  
**STATEMENT OF NET POSITION**  
**COMBINING STATEMENT OF NET POSITION**  
**Internal Service Funds**  
**June 30, 2016**

	<b>Equipment Revolving</b>	<b>Group Insurance</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 191,984	\$ 44,933	\$ 236,917
Total Current Assets	<u>191,984</u>	<u>44,933</u>	<u>236,917</u>
<b>Noncurrent Assets</b>			
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	1,006,393	-	1,006,393
Total Noncurrent Assets	<u>1,006,393</u>	<u>-</u>	<u>1,006,393</u>
<b>Total Assets</b>	<u>1,198,377</u>	<u>44,933</u>	<u>1,243,310</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts Payable	411	50	461
Due to Other Funds	13,983	-	13,983
Claims Incurred But Not Reported	-	24,425	24,425
Total Current Liabilities	<u>14,394</u>	<u>24,475</u>	<u>38,869</u>
<b>Total Liabilities</b>	<u>14,394</u>	<u>24,475</u>	<u>38,869</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	1,006,393	-	1,006,393
Unrestricted	177,590	20,458	198,048
Total Net Position	<u>\$ 1,183,983</u>	<u>\$ 20,458</u>	<u>\$ 1,204,441</u>

**CITY OF HARLAN, IOWA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Internal Service Funds**  
**For the Year Ended June 30, 2016**

	<b>Equipment Revolving</b>	<b>Group Insurance</b>	<b>Total</b>
<b>Operating Revenues:</b>			
Charges for Services	\$ 135,850	\$ -	\$ 135,850
Miscellaneous	31,020	-	31,020
Reimbursement from Employees/Insurance	-	882,452	882,452
<b>Total Operating Revenue</b>	<u>166,870</u>	<u>882,452</u>	<u>1,049,322</u>
<b>Operating Expenses:</b>			
Public Safety	50,283	-	50,283
Public Works	7,602	-	7,602
Culture and Recreation	71,376	-	71,376
General Government	22,251	874,754	897,005
Depreciation	245,146	-	245,146
<b>Total Operating Expenses</b>	<u>396,658</u>	<u>874,754</u>	<u>1,271,412</u>
<b>Operating Income (Loss)</b>	<u>(229,788)</u>	<u>7,698</u>	<u>(222,090)</u>
<b>Non-Operating Income:</b>			
Gain on Disposition of Property	(270)	-	(270)
<b>Total Non-Operating Income</b>	<u>(270)</u>	<u>-</u>	<u>(270)</u>
<b>Income (Loss) before Contributions and Transfers</b>	<u>(230,058)</u>	<u>7,698</u>	<u>(222,360)</u>
<b>Other Financing Sources</b>			
Transfers In	60,000	-	60,000
<b>Total Other Financing Sources</b>	<u>60,000</u>	<u>-</u>	<u>60,000</u>
<b>Change in Net Position</b>	<u>(170,058)</u>	<u>7,698</u>	<u>(162,360)</u>
<b>Net Position (Deficit)- Beginning</b>	<u>1,354,041</u>	<u>12,760</u>	<u>1,366,801</u>
<b>Net Position - Ending</b>	<u>\$ 1,183,983</u>	<u>\$ 20,458</u>	<u>\$ 1,204,441</u>

**CITY OF HARLAN, IOWA**  
**COMBINING STATEMENT OF CASH FLOWS**  
**Internal Service Funds**  
**For the Year Ended June 30, 2016**

	<b>Equipment Revolving</b>	<b>Group Insurance</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Customers	\$ 121,870	\$ 882,452	\$ 1,004,322
Cash Paid to Suppliers for Goods and Services	(130,186)	(882,852)	(1,013,038)
Net Cash (Used) by Operating Activities	<u>(8,316)</u>	<u>(400)</u>	<u>(8,716)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition and Construction of Capital Assets	<u>(186,692)</u>	-	<u>(186,692)</u>
Net Cash (Used) for Capital and Related Financing Activities	<u>(186,692)</u>	-	<u>(186,692)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Transfers from Other Funds	60,000	-	60,000
Due From (To) Other Funds	<u>13,983</u>	-	<u>13,983</u>
Net Cash Provided by Non-Capital Financing Activities	<u>73,983</u>	-	<u>73,983</u>
Net (Decrease) in Cash and Cash Equivalents	(121,025)	(400)	(121,425)
Cash and Cash Equivalents at Beginning of Year	<u>313,009</u>	<u>45,333</u>	<u>358,342</u>
Cash and Cash Equivalents at End of Year	<u>191,984</u>	<u>44,933</u>	<u>236,917</u>
Reconciliation of Operating Income (Loss) to Net Cash (Used) by Operating Activities			
Operating Income (Loss)	<u>(229,788)</u>	<u>7,698</u>	<u>(222,090)</u>
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	245,146	-	245,146
Increase (Decrease) in Liabilities			
Accounts Payable	(23,674)	50	(23,624)
Claims Incurred But Not Reported	-	(8,148)	(8,148)
Total Adjustments	<u>221,472</u>	<u>(8,098)</u>	<u>213,374</u>
Net Cash (Used) by Operating Activities	<u>\$ (8,316)</u>	<u>\$ (400)</u>	<u>\$ (8,716)</u>

**CITY OF HARLAN, IOWA**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND**  
**Fiduciary Funds**  
**June 30, 2016**

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016
<b>FLEX SPENDING</b>				
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,478	\$ 8,718	\$ 7,660	\$ 2,536
<b>Total Assets</b>	1,478	8,718	7,660	2,536
<b>LIABILITIES</b>				
Other Payables	1,478	8,718	7,660	2,536
<b>Total Liabilities</b>	\$ 1,478	\$ 8,718	\$ 7,660	\$ 2,536
<b>NET ASSETS</b>				
Unrestricted	-	-	-	-
<b>Total Net Assets</b>	\$ -	\$ -	\$ -	\$ -

**CITY OF HARLAN, IOWA**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**Fiduciary Funds**  
**June 30, 2016**

	Private Purpose Trust Funds					
	C Hansen/ Schildberg	Library	Beebe	Police	Loree/ Poynter	Totals
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 271	\$ 18,668	\$ 10,515	\$ 5,472	\$ 2,083	\$ 37,009
<b>Total Assets</b>	271	18,668	10,515	5,472	2,083	37,009
<b>LIABILITIES</b>						
Other Payables	-	200	-	-	-	200
<b>Total Liabilities</b>	-	200	-	-	-	200
<b>NET POSITION</b>						
Restricted - Held in Trust	271	18,468	10,515	5,472	2,083	36,809
<b>Total Net Position</b>	<u>\$ 271</u>	<u>\$ 18,468</u>	<u>\$ 10,515</u>	<u>\$ 5,472</u>	<u>\$ 2,083</u>	<u>\$ 36,809</u>

**CITY OF HARLAN, IOWA**  
**COMBINING STATEMENT OF CHANGES IN NET POSITION**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2016**

	Private Purpose Trust Funds					Totals
	C Hansen/ Schildberg	Library	Beebe	Police	Loree/ Poynter	
<b>Additions</b>						
Contributions	\$ -	\$ 4,006	\$ -	\$ -	400	\$ 4,406
Miscellaneous	-	-	-	329	-	329
Total Additions	-	4,006	-	329	400	4,735
<b>Deductions</b>						
Public Safety	-	-	-	1,000	-	1,000
Culture and Recreation	-	3,018	2,480	-	-	5,498
Total Deductions	-	3,018	2,480	1,000	-	6,498
Changes in Net Position	-	988	(2,480)	(671)	400	(1,763)
Net Positon Beginning of Year	271	17,480	12,995	6,143	1,683	38,572
Net Position End of Year	\$ 271	\$ 18,468	\$ 10,515	\$ 5,472	\$ 2,083	\$ 36,809

**CITY OF HARLAN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)**  
**For the Year Ended June 30, 2016**

Federal Grantor Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number		Federal Expenditures
<b>Direct:</b>				
U.S. Department of Transportation: Airport Improvement Program	20.106	3-19-0042-009-2016 3-19-0042-008-2014	\$ 42,948 <u>1,476,741</u>	\$ 1,519,689
<b>Indirect:</b>				
U.S. Department of Transportation: The National Highway Traffic Safety Administration: Passed Through Iowa Department of Public Safety Governor's Traffic Safety Bureau State and Community Highway Safety Grant	20.600	16-402-M00P EMPG	4,200 <u>590</u>	4,790
U.S. Department of Agriculture: Passed Through Iowa Department of Natural Resources Volunteer Fire Assistance Grant	10.664			<u>3,100</u>
Total Expenditures of Federal Awards				<u>\$ 1,527,579</u>

**Note 1 – Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Harlan, Iowa under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Harlan, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Harlan.

**Note 2 – Summary of Significant Accounting Policies** – Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Harlan has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Members of the City Council  
City of Harlan, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Harlan, Iowa's basic financial statements and have issued our report thereon dated January 10, 2017. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Harlan Municipal Utilities, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

***Internal Control Over Financial Reporting:***

In planning and performing our audit of the financial statements, we considered the City of Harlan, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harlan, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Harlan, Iowa's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a material weakness.

***Compliance and Other Matters:***

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express



such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

***City of Harlan, Iowa's Response to Findings***

The City of Harlan, Iowa's response to the findings identified in our audit is described in the accompanying schedule of findings. The City of Harlan, Iowa's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.

If you have any questions concerning the above matters, we would be pleased to discuss them with you at your convenience.

  
Certified Public Accountants

Le Mars, Iowa  
January 10, 2017



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

Honorable Members of the City Council  
Harlan, Iowa

**Report on Compliance for Each Major Federal Program**

We have audited the City of the City of Harlan, Iowa's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Harlan, Iowa's major federal program for the year ended June 30, 2016. City of Harlan, Iowa's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The City of Harlan's basic financial statements include the operations of Harlan Municipal Utilities which received no federal awards. Our audit, described below, did not include the operations of Harlan Municipal Utilities because these financial statements were audited by other auditors.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the City of Harlan, Iowa's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Harlan, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Harlan, Iowa's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Harlan, Iowa, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2016.

## Report on Internal Control over Compliance

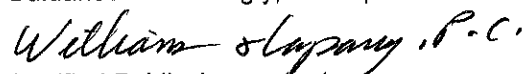
Management of the City of Harlan, Iowa, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Harlan, Iowa's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Harlan, Iowa's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2016-002 that we consider to be a material weakness.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

  
Certified Public Accountants

Le Mars, Iowa  
January 10, 2017

**CITY OF HARLAN, IOWA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

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**Part I: Summary of the Independent Auditors' Results**

- (a) Unmodified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (e) A material weakness in internal control over major programs was disclosed.
- (f) The audit did disclose audit findings which were required to be reported in accordance with the Uniform Guidance.
- (g) The major program was as follows:  
20.106 Airport Improvement Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Harlan did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements**

**Instances of Non-Compliance:**

No matters were noted.

There were no prior year audit findings.

**Material Weakness:**

2016-001 Financial Reporting

Condition and Criteria – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the City's financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Effect – Because of insufficient review procedures, the financial accounting is susceptible to an increased risk of errors and omissions.

Cause – With limited number of personnel and time constraints, review of all financial accounting activities is not feasible.

Recommendation – The City should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the City's financial statements.

Views of Responsible Officials – We will double check these in the future to avoid missing any receivables, payables or capital asset transactions.

**CITY OF HARLAN, IOWA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

---

**Part III: Findings Related to Federal Awards**

**Instances of Non-Compliance:**

No matters were noted.

**Material Weakness:**

2016-002 Schedule of Expenditures of Federal Awards

Condition and Criteria – The auditors were required to propose and have management post adjusting journal entries to the Schedule of Expenditures of Federal Awards. Management is responsible for the preparation of the Schedule of Expenditures of Federal Awards.

Effect – The Schedule of Expenditures of Federal Awards provided by management were not presented entirely in accordance with the Uniform Guidance and did not include all Federal Expenditures. Adjustments were made to include all federal expenditures.

Cause – With a limited number of personnel and current staff workload, the time constraints allow for errors to go uncorrected.

Recommendation – We recommend that the City implement a complete review process of the grant reporting process.

Response – City management feels that additional training would be beneficial and will proceed to implement immediately.

**Part IV: Other Findings Related to Required Statutory Reporting**

IV-A-16 - Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the Public Safety, Culture and Recreation and business type/enterprises function.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

IV-B-16 - Questionable Expenditures - We noted no questionable expenditures during our audit. It is our understanding that an investigation is ongoing into questionable expenditures for the benefit of the former City manager. This investigation is being conducted by the Iowa state auditor's office and no results of this investigation are currently available.

IV-C-16 - Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

**CITY OF HARLAN, IOWA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

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**Part IV: Other Findings Related to Required Statutory Reporting (Continued)**

- IV-D-16 - Business Transactions – No business transactions between the City and City officials or employees are as follows.
- IV-E-16 - Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. However, we recommend that the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-16 - Council Minutes - We noted no transactions requiring approval which had not been approved by the Council.
- IV-G-16 - Cash and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- IV-H-16 - Revenue Bonds - No violations of revenue bond resolutions were noted.
- IV-I-16 - Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

**CITY OF HARLAN, IOWA**  
**Schedule of Prior Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

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**Part V: Prior Year Audit Findings – Year Ended June 30, 2015**

2015-001 - **Financial Reporting**

Condition and Criteria – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the City's financial statements. Adjustments were subsequently made by the City to properly include and these amounts in the financial statements.

Effect – Because of insufficient review procedures, the financial accounting is susceptible to an increased risk of errors and omissions.

Cause – With limited number of personnel and time constraints, review of all financial accounting activities is not feasible.

Recommendation – The City should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the City's financial statements.

Current Status – The recommendation is still in process. The City continues to look at its processes in order to make sure all amounts and adjustments are properly recorded.



## CITY OF HARLAN

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### City of Harlan, Iowa Corrective Action Plan June 30, 2016

The City of Harlan, Iowa respectfully submits the following corrective action plan for the year ended June 30, 2016.

The audit was performed by Williams & Company, P.C., 21 1<sup>st</sup> Avenue NW, Le Mars, Iowa, for the fiscal year ended June 30, 2016.

The findings from the June 30, 2016 Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

#### MATERIAL WEAKNESS:

**2016-001** Condition and Criteria – During the audit, we identified material adjustments required to be made to the City's financial statements. Adjustments were made by the City to properly include these changes to the financial statements. A similar condition was noted in the prior audit.

Effect – Expenses/Expenditures/Revenues may not be properly reported and/or balance sheet amounts maybe misstated.

Cause – Due to the limited number of employees, the City does not have sufficient controls in place to ensure that all entries are properly recorded and that all other applicable adjustments are made.

Recommendation – The City should implement procedures to ensure all entries are identified and included in the City's financial statements and that any required adjustments are made.

Response – We will double check the financial statements in the future and all supporting schedules to verify that all adjustments are made properly and a review process to ensure statements are fairly presented. The City will attempt to implement these processes for the 2017 annual report.

#### **2016-002** Schedule of Expenditures of Federal Awards

Condition and Criteria – The auditors were required to propose and have management post adjusting journal entries to the Schedule of Expenditures of Federal Awards. Management is responsible for the preparation of the Schedule of Expenditures of Federal Awards.





## CITY OF HARLAN

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Effect – The Schedule of Expenditures of Federal Awards provided by management were not presented entirely in accordance with the Uniform Guidance and did not include all Federal Expenditures. Adjustments were made to include all federal expenditures.

Cause – With a limited number of personnel and current staff workload, the time constraints allow for errors to go uncorrected.

Recommendation – We recommend that the City implement a complete review process of the grant reporting process.

Response – City management feels that additional training would be beneficial and will proceed to implement immediately.

If involved agencies have any questions regarding this plan, please call Gene Gettys at 712-755-5137.

Sincerely yours,

City of Harlan, Iowa

Gene Gettys, City Administrator